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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1992-1993

Implementation of the recommendations of the External Auditor for the financial period 1992-1993

Report by the Director-General

Summary

In compliance with Programme and Budget Committee conclusion 94/8, paragraph (f), provides information on actions taken by the Secretariat to implement the recommendations contained in the report of the External Auditor for the biennium 1992-1993 (IDB.13/7).

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Introduction

1. The present report, which responds to conclusion 94/8, paragraph (f) of the Programme and Budget Committee, complements and updates the information provided in the comments of the Director-General (IDB.13/8) in respect of the issues raised in the report of the External Auditor (IDB.13/7) and should be read in conjunction with those documents.

2. As undertaken by the Director-General in his statement to the Programme and Budget Committee, a Committee has been established to follow up the recommendations of the External Auditor, with the participation of Internal Audit Unit, Legal Service, Personnel Services, Financial Services and Management Information Services; it will remain as an ongoing body for follow-ups and monitoring of recommendations by the External Auditor.

I. SPECIFIC COMMENTS

A. Budgetary, accounting and financial reporting procedures

Regular budget assessed contributions income (para. 7)*

3. Collection rates for 1992 and 1993 assessed contributions are expected to improve marginally in respect of the year 1994. The latest information on the subject is contained in document IDB.13/22 on the financial situation of UNIDO.

Regular budget unliquidated obligations (para. 9)

4. As requested by the External Auditor, additional instructions will be incorporated into the internal timetable for the year-end closing at 31 December 1994, to ensure full compliance with legislative requirements regarding regular budget outstanding obligations review and reporting as at 31 December 1994, and for year-end closures thereafter.

* Paragraph numbers refer to paragraphs in the report of the External Auditor (IDB.13/7).

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Commitments approved for future fiscal periods (para. 11)

5. To comply with the recommendation of the External Auditor, and as stated in document IDB.13/8, paragraph 10, a system is being developed that will ensure the recording and accounting of commitments for future bienniums. The procedures will be established prior to 31 December 1994 and will remain in place for reporting at year-end closures thereafter. Accordingly, the Director-General will issue amendments to financial rules 104.3 and 109.6(b). The amendments will be communicated to the Board at its fourteenth session, through the Programme and Budget Committee.

Gains and losses on exchange (para. 12)

6. In compliance with the External Auditor's recommendation the Director-General will issue an amendment to financial rule 110.7(b) to align this rule with the actual accounting and reporting practice for the treatment of exchange losses. This amendment will be communicated to the Board at its fourteenth session through the Programme and Budget Committee.

Tax Equalization Fund - Treatment of accounts receivable (para. 15)

7. Negotiations have been renewed with the Government of the United States of America concerning the reimbursement of taxes paid on income earned during the period 1986 to 1991 by UNIDO staff members. Further developments will be brought to the attention of the Programme and Budget Committee at its eleventh session.

Unliquidated obligations - United Nations Development Programme Operating Fund (para. 16)

8. In accordance with the recommendations of the External Auditor, and in the interests of improving current accounting practice, the review of unliquidated obligations as at 31 December 1994 and for year-end closures in 1994 and thereafter will be carried out under modified instructions which will include provision of written confirmation by certifying officers of the validity of the unliquidated obligations in respect of technical cooperation projects.

Advances for seminars and study tours for technical cooperation projects (para. 17)

9. The Director-General accepts the recommendation of the External Auditor that advances for seminars and study tours be accounted for as receivables, that procedures be established to ensure that advances are cleared in a timely manner, and that delays in clearing advances be disclosed and quantified in the notes to the financial statements. The amendment in the accounting for advances for seminars and study tours will thus be reflected in the year-end accounts of the Organization hereafter.

Bank reconciliations (para. 18)

10. The Organization took action in June 1994 to clear the backlog in bank reconciliations, and to ensure that timely and regular monthly reconciliations are carried out. Staff resources have been assigned to do this work. While the backlog has not yet been fully cleared, significant progress has been made and it is estimated to be cleared by 31 December 1994.

Financial completion of technical cooperation projects (para. 25)

11. The External Auditor noted the remarkable improvement in 1993, compared with 1992, in the timeliness of financial completion of projects. Further efforts are being made to ensure all projects are financially completed within 12 months after their operational completion. Together with the improvements already made, continual attention is given to this issue and high standards should be maintained in the future in respect of the financial completion of projects.

UNIDO finance manual (para. 42)

12. Following the recommendation of the External Auditor, the official version of the UNIDO finance manual will be distributed by 31 December 1994. The manual will be published in such a format as to permit amendments, as they occur, to be conveniently inserted.

B. Contracts and purchases

Manual on policies, procedures and rules governing the activities of Purchase and Contracts Units (para. 19)

13. The Secretariat will complete a second review of the draft version of this manual before the end of 1994 for publication early in 1995.

Roster of vendors and roster of industrial consultants (para. 20)

14. The Secretariat has taken measures to ensure that for procurement and contracts actions the roster of vendors or the roster of industrial consultants are always used, and that the appropriate file contains a note documenting the consultation of the roster. To enhance the user-friendliness of the roster of vendors, consultations with Management Information Services are being continued and the coding system is being further refined by the Inter-Agency Procurement Services Office in cooperation with the procurement services in the United Nations system. In addition, the Purchase Unit is continuing its efforts to ensure rostering of an adequate number of vendors offering products demanded by UNIDO.

Purchase orders of less than $20,000 (para. 21)

15. Instructions have been issued to ensure that procurement may proceed on the basis of financial rule 109.19 (a) without inviting formal bids or calling for proposals only when current competitive quotations are available, which conform to the specifications and delivery schedule in the purchase requisition. The instructions further state that quotations older than six to nine months cannot be considered current, and that in all cases where this procedure is followed, the purchase file must contain a record of the competitive quotations that were considered for the award.

Management of purchase and contract files (para. 22)

16. Instructions have been issued to purchasing and contracts staff to ensure compliance with the requirements mentioned by the External Auditor in paragraphs 111 and 114 of document IDB.13/7.

17. A review has been initiated to revise and improve the requisition forms to ensure that all data and clearances required by the Purchase and Contracts Units are provided on the forms.

18. Instructions have been issued to the Purchase Unit requiring the responsible officer to monitor the return of the signed acknowledgement copy and to ensure that no payment is made before receipt and filing in the purchase file of the acknowledgement copy.

19. As reported in document IDB.13/8, paragraph 24, a note will be addressed to UNIDO field offices calling attention to the importance of completing and returning the receiving and inspection reports to the Purchase Unit. In addition, instructions have been issued to the Purchase Unit requiring the responsible officer to monitor the receipt of the receiving and inspection report (copy B of the purchase order), if necessary by cabling the UNDP Resident Representative concerned, and not to close or archive the purchase file until receipt of shipment in good condition has been duly acknowledged or, alternatively, necessary claims and/or settlement action has been completed.

20. As reported in document IDB.13/8, paragraph 24, in the process of future computerization, consideration will be given to the inclusion of fields to record receiving and inspection reports.

21. The few inaccuracies in inputting data into the Contracts Management Information System have been duly noted and efforts will continue to be made to ensure the completeness of the computerized information. At the same time, it is recalled that the computerized information system is not the only tool available to the contracts officers and that the instances referred to by the External Auditor did not involve any wrongful payment or other inappropriate transaction.

Publication/advertisement (para. 23)

22. Guidelines have been issued on the requirement for published advertisement in journals and/or newspapers when requesting proposals for large contracts for services for UNIDO Headquarters or for large purchase orders. The solicitation documents will be provided free of charge to firms notifying UNIDO of their interest.

Payment conditions

23. In order to ensure a more uniform practice, while minimizing exposure to financial risks, management has also issued instructions on the conditions of payment, including advance payments against bank guarantees or letters of credit and the scheduling of payments to reflect the satisfactory performance of services.

C. Electronic data-processing systems

Distribution of EDP non-staff costs (para. 30)

24. As indicated in document IDB.13/8 (para. 34), the ultimate goal is to implement a charge-back system for non-staff expenditures, beginning with a distribution of budget resources for office automation and network in the 1996-1997 budget (document IDB.12/7, annex II, para. 1 also refers). At present the information technology committees are establishing the mechanism for distribution of such budget resources in the proposals for the 1996-1997 budget submission.

A system for managing, controlling and auditing automation projects (para. 31)

25. All new applications development projects now have a work plan that shows the time schedule and estimated start and completion dates for each phase and for each activity within a phase.

26. Progress has also been made in the integrated requisition, purchase and contract system. With the participation of the end-user, a requirements catalogue was prepared, based on which a set of requirements was selected for implementation as phase I. This phase is now in the test and parallel stage and the end-user reference manual has been completed. A number of requirements from the requirements catalogue were deferred for later implementation as phase II.

Formal standards concerning end-user computing (para. 32)

27. In the stock-taking exercise, the majority of the division information managers have already completed the inventory of personal computer (PC) applications, with those still outstanding to be completed in September 1994. By end-October 1994, a new version of the information systems portfolio will be published that will include all PC-based applications.

28. The systems analyst of Financial Services has finished his review of the PC-based applications in Accounts and Payments Unit (APU) referred to by the External Auditor (IDB.13/7, para. 157). These applications fall into one of two basic categories:

(a) Independent PC systems found to be effective tools for APU work automation. Following the review, these applications have been left unchanged;

(b) Systems that have mainframe data as input or output. Four of these have been integrated into the related mainframe systems, while three others are being or will be integrated. This will eliminate the lack of integration pointed out by the External Auditor. Where applicable, the remaining applications will automatically download or upload data between the mainframe server and the PC in order to avoid duplication of input.

Providing back-up for key users (para. 33)

29. As specified in document PBC.10/13, under the agreement signed in March 1994, the International Atomic Energy Agency (IAEA) provides UNIDO with applications development support to supplement UNIDO's own applications development activity. The provision by IAEA of such services has started to free UNIDO staff resources from routine maintenance, thus ensuring adequate professional back-up for mission-critical computer systems.

D. Personnel matters

Staff mobility (para. 36)

30. Efforts have continued to increase the number of staff members detailed to technical cooperation projects through the inclusion of such inputs in the preparatory phases of projects. Thus, while in 1993 the number of staff members detailed to projects amounted to 16, this figure has increased to 21 for the period 1 January to 31 August 1994. It is anticipated that this positive trend will continue throughout 1994.

Representation of women (para. 37)

31. In addition to the restoration of the representation of women at the senior level referred to in document IDB.13/8 (para. 50), the disparity in the average age between men and women at the P-5 level has also been reduced as a result of the recent 1993 promotion review. It is anticipated that these positive trends will continue during the course of the 1994 promotion review.

Performance appraisal (para. 39)

32. In line with the Director-General's intention to improve the existing performance appraisal system (IDB.13/8, para. 54), a working group has been established with the aim of producing a revised system which would enhance the usefulness of performance appraisal. The initial phase of the group's work has been completed, and a prototype form is being submitted to Managing Directors and other end-users for their views. These views will be considered and, where appropriate, incorporated in the final version of the performance appraisal form. It is anticipated that testing of the revised system will begin in late 1994.

Home leave travel (para. 40)

33. The External Auditor's remarks concerning the 4.8 per cent discount offered by American Express is one of a number of issues being studied as a result of the request by the Industrial Development Board to review the current arrangements for implementing the system of home leave entitlements of UNIDO staff (decision IDB.12/Dec.4). In close cooperation with IAEA, which was also requested by its Board to conduct a similar review, a study was undertaken by UNIDO, the results of which are being analysed. On the basis of this analysis, UNIDO and IAEA are exploring means of arriving at similar procedures for implementation in January 1995.

Staff inspection unit (para. 41)

34. The staffing situation in the organizational units mentioned in the External Auditor's report continues to be monitored closely. While a thorough Organization-wide workload and staffing review by a formally established staff inspection unit would require resources not included in the current programme and budget, it is intended to hire two consultants to review personnel procedures and to develop a methodology for assigning staff according to workload. An outline of the proposed methodology is expected to be available towards the end of the first quarter of 1995. The feasibility of establishing an independent staff inspection function will be evaluated further in the light of the consultants' findings.

35. In the meantime, the Director-General has been active in pursuing steps to respond to the request for a more flexible personnel policy. This has included the granting of fixed-term appointments only, including short-term appointments for staff in an advisory or specialist capacity. Retention of staff on fixed-term appointments will be based on the actual needs of the Organization and the performance of the staff concerned.

II. ACTION REQUIRED OF THE BOARD

36. The Board may wish to take note of the report of the Director-General on actions taken in response to the issues and recommendations expressed by the External Auditor.